

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
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-----100902Z 101547 /14

P R 100832Z MAR 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6041

TREASURY DEPT WASHDC PRIORITY

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

AMEMBASSY PARIS

UNCLAS SECTION 1 OF 2 TOKYO 3404

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- MARCH 3-10

1. SUMMARY: COMPROMISE REACHED TO BOOST FY 1977 TAX CUT BY \$1 BIL PLUS. OFFICIAL DISCOUNT RATE CUT APPEARS ALL BUT ANNOUNCED; LATEST BOJ BUSINESS SURVEY MAY PARTIALLY EXPLAIN WHY. AND BANKRUPTCIES UP AGAIN IN FEB. GROWTH OF MONETARY AGGREGATES COMPARATIVELY SLOW IN JAN. MOF REVISES MEDIUM-TERM FISCAL PLAN TO ALLOW FOR LARGER BUDGET DEFICITS DURING THE PERIOD UP TO 1980; EXPRESSES DOUBTS THAT VALUE ADDED TAX CAN BE INTRODUCED BEFORE 1980 AT EARLIEST. NEW AUTO REGISTRATIONS RISE 9.5 PERCENT IN FEB, FIRST TIME SINCE LAST SUMMER THAT THEY HAVE INCREASED IN TWO CONSECUTIVE MONTHS. JAN NEW MACHINERY ORDERS ALSO REGISTER FIRST BACK-TO-BACK RISE IN NEARLY A YEAR. GOVT OF FINLAND MAY FLOAT YEN BOND ISSUE IN MAY. END
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SUMMARY.

2. ON MAR 9, THE LDP AND THE OPPOSITION PARTIES AGREED UPON, AND THE CABINET ACCEPTED, A COMPROMISE FORMULA PROVIDING FOR A LARGER TAX CUT IN FY 1977 AND EARLIER INTRODUCTION OF PLANNED INCREASE IN WELFARE PAYMENTS. COMPROMISE INVOLVES INCREASE IN CUT IN CENTRAL GOVT INCOME TAX FROM GOVT-PROPOSED

YEN 353 BIL TO YEN 653 BIL, AND NEW SPECIAL WELFARE GRANTS OF YEN 63 BIL. PROPOSED CUT IN LOCAL TAXES REMAINS AT YEN 79 BIL, AS PROPOSED BY GOVT. CONSTITUTIONAL ISSUE OF DIET'S RIGHT TO AMEND BUDGET WILL BE FINESSED BY HAVING GOVT SUBMIT REVISED BUDGET AND OTHER NECESSARY LEGISLATION. PRESENT INDICATIONS ARE THAT ADDITIONAL WELFARE PAYMENTS WILL BE FINANCED OUT OF THE GOVT CONTINGENCY FUNDS, THUS AVOIDING INCREASE IN AMOUNT OF TOTAL BUDGET. NO DECISION REACHED ON FINANCING ADDITIONAL TAX CUTS; BUT FINMIN BOH IS PUBLICLY ASSERTING THERE WILL BE NO INCREASE IN BOND ISSUES.

3. GOVT'S CONCESSIONS ON TAX CUT HOPEFULLY CLEAR WAY FOR LOWER HOUSE PASSAGE OF BUDGET BEFORE PRIMIN FUKUDA'S DEPARTURE FOR WASHINGTON TO MEET WITH PRESIDENT CARTER. THIS WOULD MEAN THAT BUDGET WOULD BE APPROVED NO LATER THAN A MONTH AFTER THAT, NO MATTER WHAT HAPPENS IN UPPER HOUSE (WHICH HAS 30 DAYS TO CONSIDER BUDGET BUT CANNOT AMEND OR BLOCK IT IN THE FINAL ANALYSIS). THUS PROSPECTS IMPROVE MARKEDLY THAT TIE-UPS IN DIET THIS YEAR WILL NOT, AS THEY DID LAST YEAR, ADVERSELY AFFECT ECONOMIC RECOVERY.

4. THE LONG-RUMORED CUT IN THE OFFICIAL DISCOUNT RATE APPEARS ALL BUT ANNOUNCED. PRESS, CITING INFORMED SOURCES, IS NOW REGULARLY REPORTING AS FACT THAT BOJ WILL ANNOUNCE A 0.5 PERCENT RATE CUT (TO 6.0 PERCENT PER ANNUM). ACCORDING TO THEIR SCENARIO, A SPECIAL MEETING OF BOJ POLICY BOARD WILL BE HELD MAR 11 AND NEW RATES PUT INTO EFFECT MAR 12. WITH COMPROMISE REACHED ON TAX CUT, ONLY REMAINING FLY IN OINTMENT IS THAT MORINAGA HAS APPARENTLY NOT YET HAD HIS UNCLASSIFIED

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MEETING WITH PRIMIN ON SAVINGS DEPOSIT RATE REDUCTION. THERE ARE HINTS, HOWEVER, THAT MORINAGA MAY HAVE DECIDED TO PROCEED WITH THE DISCOUNT RATE CUT WITHOUT GETTING THE SORT OF ASSURANCES HE WOULD HAVE LIKED ABOUT A LATER CUT IN SAVINGS DEPOSIT RATES.

5. WHAT SEEMS TO BE A CASE FOR A DISCOUNT RATE CUT IS MADE IN BOJ REPORT RELEASED THIS WEEK ON ITS LATEST SURVEY OF BUSINESS OUTLOOK CONDUCTED IN FEB. IN GENERAL, BUSINESSMEN ARE SEEN AS VIEWING THEIR ECONOMIC SITUATION AS LESS ENCOURAGING NOW THAN AT TIME OF LAST SURVEY CONDUCTED IN NOV. BUSINESSMEN ARE PORTRAYED AS CONCERNED ABOUT INVENTORY RISE OF 3.5 PERCENT IN FOURTH QUARTER CY 1976; EXPECTING MODEST (3 PERCENT QUARTERLY) SALES INCREASES DURING FIRST HALF OF 77; AND PLANNING TO RESTRAIN PRODUCTION INCREASES IN ORDER TO TRIM INVENTORIES SOMEWHAT. ANOTHER FINDING OF THE BOJ SURVEY WAS DOWNWARD REVISION IN PLANNED CAPITAL INVESTMENT. BUSINESSMEN'S ESTIMATES OF CAPITAL SPENDING FOR JFY 76 WERE REVISED DOWNWARD FROM LEVELS ESTIMATED IN

PREVIOUS SURVEY; AND NOT A FEW FIRMS DID NOT RESPOND TO BOJ QUESTIONS CONCERNING PLANNED CAPITAL SPENDING IN JFY 77. OF THOSE INDUSTRIES WHICH DID RESPOND, ESTIMATES SHOWED INVESTMENT BY MANUFACTURING FIRMS DECLINING 9.5 PERCENT FROM FY 76 (WITH MOST OF THIS DECLINE ATTRIBUTABLE TO IRON AND STEEL INDUSTRY), AND 10.8 PERCENT INCREASE IN INVESTMENT BY NON-MANUFACTURING FIRMS. FINALLY, SURVEY INDICATED THAT BUSINESS PROFITS FOR OCT 76-MAR 77 ACCOUNTING PERIOD WERE EXPECTED TO INCREASE AT MORE MODEST PACE THAN IN PREVIOUS TWO ACCOUNTING PERIOD.

6. BUSINESS FAILURES IN FEB WERE AGAIN HIGH. BOTH PRIVATE CREDIT AGENCIES GATHERING FIGURES ON SUCH FAILURES PUT THE FEB FIGURE AT 1364, CASES, UP 6.1 PERCENT FROM JAN AND 25 PERCENT OVER A YEAR EARLIER. LIABILITIES OF FIRMS WHICH FAILED WERE DOWN 5 TO 5 1/2 PERCENT FROM THE JAN FIGURE, ALTHOUGH UP 11 PERCENT OVER A YEAR EARLIER. MORE THAN HALF THE TOTAL UNCLASSIFIED

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OF BANKRUPTCIES IS ATTRIBUTED TO THE ECONOMIC SLUMP -- POOR SALES, CUMULATIVE DEFICITS AND DIFFICULTIES IN COLLECTIONS. THE TWO AGENCIES PROJECT THAT BANKRUPTCIES IN FISCAL 76 COULD HIT SOME 16,500 CASES, AS COMPARED WITH 13,223 IN FISCAL 75.

7. GROWTH IN THE MONETARY AGGREGATES IN JAN WAS MIXED BUT ON BALANCE AGAIN SOMEWHAT OFF THE PACE OF MUCH OF THE

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DODE-00 PM-04 H-02 L-03 PA-02 PRS-01 /113 W
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P R 100832Z MAR 77

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC PRIORITY 6042

TREASURY DEPT WASHDC PRIORITY
INFO AMEMBASSY BONN
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AMCONSUL HONG KONG
USMISSION OECD PARIS
AMEMBASSY PARIS

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PAST YEAR. NARROWLY DEFINED MONEY SUPPLY, M1 (S.A)
ACTUALLY DECLINED AGAIN IN JAN. RATE OF INCREASE IN M2
ACCELERATED, BUT ONLY TO ABOUT THE AVERAGE PACE OF THE
FOURTH QUARTER OF LAST YEAR, WHICH WAS THE LOW QUARTER OF
THE YEAR. BANK LOANS AND DISCOUNTS ROSE SOMEWHAT MORE
SLOWLY IN JAN, DESPITE SOME INDICATIONS OF ACCELERATION
DURING FOURTH QUARTER OF LAST YEAR. BOJ OFFICIALS ATTRIBUTE
MODERATION IN GROWTH OF AGGREGATES PRIMARILY TO WEAK PRIVATE
DEMAND FOR FUNDS.

MONEY AND CREDIT, S.A.

(BIL YEN; PERCENT CHANGE FROM PRIOR MONTH IN PAREN)

	M1 (JEI 123)	M2 (JEI 126)	LOANS AND DISCOUNTS (JEI 133)
1976: NOV	53,254 (0.2)	137,565 (0.7)	96,842 (0.6)
DEC	53,149 (MIN 0.2)	138,344 (0.6)	97,648 (0.9)
1977: JAN	53,043 (MIN 0.2)	139,565 (0.9)	98,312 (0.7)

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8. MOF HAS REVISED ITS MEDIUM-TERM FISCAL PLAN (FOR THE
1975-80 PERIOD) TO REFLECT REVISED GOVT SPENDING PROJECTIONS
FOR THE PLAN PERIOD AND PROPOSED CHANGES IN THE GOJ TAX
SYSTEM. ONE MAJOR RESULT OF THE PLAN REVISIONS IS THAT THE
MINISTRY HAS GIVEN UP ON ITS INITIAL GOAL OF ACHIEVING A
"BALANCED BUDGET" ON CURRENT EXPENDITURES BEFORE JFY 1980.
THE DEFICIT ON CAPITAL EXPENDITURES (COVERED BY ISSUES OF
SO-CALLED "CONSTRUCTION BONDS") IN THAT YEAR HAS ALSO BEEN
REVISED UPWARD BY 4-5 PERCENT. THE REVISED MINISTRY
PROJECTIONS ALSO SHOW A HIGHER RATE OF INCREASE IN TRANSFER
PAYMENTS AND A SLOWER RATE OF INCREASE IN GOVT SPENDING
ON SALARIES AND EQUIPMENT THAN PROJECTED IN THE ORIGINAL
PLAN. FINALLY, THE PROJECTED AMOUNT OF GOJ ("CONSTRUCTION"
AS WELL AS "DEFICIT FINANCING") BONDS OUTSTANDING IN
1980 ACCORDING TO THE NEW PLAN IS PUT AT ABOUT YEN 52
TRILLION (180 BIL), REPRESENTING AN UPWARD REVISION
FROM THE INITIAL FIGURES OF SOME 15 PERCENT.

9. MOF REPORTEDLY IS CLOSE TO CONCLUDING THAT INTRODUC-
TION IN JAPAN OF VALUE ADDED TAX (VAT) WILL NOT BE
POSSIBLE BEFORE 1980, AT EARLIEST. FOLLOWING RECOMMENDATIONS MADE

LAST FALL BY TAX DELIBERATION COUNCIL, MOF HAD CONSIDERED INTRODUCING VAT IN LATE 1970'S AS MEANS OF INCREASING TAX RECEIPTS AND THUS ENDING JAPAN'S BUDGET DEFICITS BY 1980. HOWEVER, MOF OFFICIALS SEEN NOW AS ON VERGE OF CONCLUDING, WITH SOME RELUCTANCE, THAT INTRODUCTION OF VAT WILL NOT BE POSSIBLE FOR SOME TIME. ONE REASON CITED IS INCREASED STRENGTH OF OPPOSITION PARTIES RESISTING VAT AS REGRESSIVE, AND POSSIBLY INFLATIONARY.

10. FEB NEW AUTO REGISTRATIONS, SEASONALLY ADJUSTED, ROSE 9.5 PERCENT FROM PRIOR MONTH. THE INCREASE MARKED FIRST TIME SINCE LAST SUMMER THAT AUTO REGISTRATIONS, SEASONALLY ADJUSTED, HAVE ADVANCED TWO MONTHS IN A ROW. LAST DEC THE MAJOR JAPANESE CAR MAKERS INTRODUCED THE FIRST MAJOR MODEL CHANGES IN ABOUT THREE YEARS.

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	THOUSAND CARS, S.A.	PERCENT CHANGE FROM PRIOR PERIOD
RECENT QUARTERS (MONTHLY AVG)		
1976 APR-JUNE	203.7	2.9
JUL-SEP	207.4	1.8
OCT-DEC	201.0	MIN 3.1
1977 JAN-FEB (2 MOS DATA)		
RECENT MONTHS		
DEC	196.7	MIN 11.6
JAN	203.0	3.2
FEB (PRELIM.)	222.3	9.5

11. SEASONALLY ADJUSTED NEW PRIVATE MACHINERY ORDERS, EXCLUDING SHIPS, CONTINUED TO INCREASE IN JAN. DESPITE RATHER UNREMARKABLE MAGNITUDE OF THE RISE, 5.7 PERCENT, IT WAS THE FIRST TIME IN NEARLY A YEAR THAT THIS SERIES (JEI 337) RECORDED CONSECUTIVE MONTHLY INCREASES. THE JAN INCREASE STEMMED FROM A LARGE 10.4 PERCENT SEASONALLY ADJUSTED RISE IN ORDERS PLACED BY MANUFACTURING FIRMS; ORDERS PLACED BY NON-MANUFACTURING FIRMS, EXCLUDING SHIPPING FIRMS, DECLINED 0.6 PERCENT.

	BIL YEN	PERCENT CHANGE FROM PRIOR MONTH
1976 OCT	261.6	MIN 13.0
NOV	250.8	MIN 4.1
DEC	289.6	15.5
1977 JAN	306.2	5.7

12. IT IS REPORTED THAT THE GOVT OF FINLAND HAS BEEN AUTHORIZED BY THE MOF TO BEGIN NEGOTIATIONS WITH UNDERWRITERS WITH A VIEW TO ISSUING BONDS OF UP TO YEN 10 TO 12 BIL IN THE JAPANESE MARKET IN MAY. IF NEGOTIATIONS ARE SUCCESSFUL, IT WILL BE THE SECOND BOND ISSUE IN THE TOKYO MARKET

THIS YEAR (ON TOP OF THE MANITOBA ISSUE IN FEB), WELL OFF
THE PACE EARLIER FORESEEN BY MOF.
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Message Attributes

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